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13 UNITED STATES DISTRICT COURT
14 CENTRAL DISTRICT OF CALIFORNIA
15 WESTERN DIVISION

16 SMARTMETRIC INC.,

17 Plaintiff,

18 v.

19 MASTERCARD INTERNATIONAL
20 INCORPORATED AND VISA INC.,

21 Defendants.

22 AND RELATED COUNTERCLAIMS.
23
24
25
26
27
28

Case No. CV 11-7126 MWF (AJWx)

**DEFENDANTS AND COUNTER-
CLAIMANTS' NOTICE OF
MOTION AND MOTION FOR
SUMMARY JUDGMENT
REGARDING PLAINTIFF AND
COUNTER-DEFENDANT'S CLAIM
FOR DAMAGES AND
INJUNCTIVE RELIEF;
MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT
THEREOF**

Date: June 24, 2013

Time: 10:00 a.m.

Crtm: 1600, Spring

Hon. Michael W. Fitzgerald

NOTICE OF MOTION

TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on June 24, 2013, at 10:00 a.m., or as soon thereafter as this matter may be heard in the Courtroom of the Honorable Michael W. Fitzgerald, Courtroom 1600, located at 312 N. Spring Street, Los Angeles, CA 90012, Defendants and Counterclaimants Visa Inc. ("Visa") and MasterCard International Inc. ("MasterCard") (collectively, "Defendants") and will bring on for hearing the following motion.

MOTION

Visa and MasterCard move for summary judgment, pursuant to Rule 56 of the Federal Rules of Civil Procedure and Civil Local Rule 56, against Plaintiff and Counter-Defendant SmartMetric Inc. ("SmartMetric"), that SmartMetric is not entitled either to recover damages or to obtain injunctive relief for Defendants' alleged infringement of U.S. Patent No. 6,792,464 ("464 patent").

The grounds for this motion are that (a) SmartMetric has failed to timely and properly disclose a viable damages claim supported by competent evidence, and (b) as a matter of law, SmartMetric is not entitled to injunctive relief based on the undisputed facts.

This motion is based on the Memorandum of Points and Authorities, Declarations of Joseph Melnik and Gary Clark, and the exhibits attached thereto. Pursuant to Civil Local Rule 56-1, this motion also is accompanied by a Statement of Uncontroverted Facts and Conclusions of Law, as well as a proposed Judgment.

This motion is made following the conference of counsel pursuant to Civil Local Rule 7-3, which took place on April 11, 2013.

1 Dated: May 6, 2013

2 Respectfully submitted,

3 JONES DAY

4
5 By /s/ Joseph Melnik
6 JOSEPH MELNIK
7 Attorneys for Defendant and Counterclaimant
8 VISA INC.

9 Dated: May 6, 2013

10 Respectfully submitted,

11 SHEPPARD, MULLIN, RICHTER & HAMPTON
12 LLP

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14 By /s/ Gary A. Clark
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17 MASTERCARD INTERNATIONAL
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MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

There are multiple bases on which the Court may dismiss this suit. As explained in Defendants' concurrently-filed motions for summary judgment of non-infringement and invalidity, the asserted claims of the '464 patent are neither valid nor infringed. Further, as explained in this motion, SmartMetric's inability as a matter of law to recover damages or injunctive relief provides another ground on which this Court may enter final judgment in Defendants' favor.

It is indisputable that SmartMetric has the burden to prove its damages claim. Yet it produced no evidence in discovery to substantiate that claim and is barred by the Federal Rules from offering such evidence now. SmartMetric also cannot rely on the untimely-disclosed "expert" opinions of its named inventor and CEO, Chaya Coleena Hendrick, to create a genuine issue of fact as to its damages. Not only are Hendrick's opinions precluded as a result of their unexcused and prejudicially late disclosure, but also they are wholly inadmissible as unqualified and unreliable under the rules of evidence and the clear guidelines the Federal Circuit has provided for properly calculating patent damages. Because no evidence exists to support SmartMetric's damages claim, summary judgment of no damages is appropriate.

Likewise, the Court can and should grant summary judgment that SmartMetric is not entitled to injunctive relief. SmartMetric may obtain an injunction only upon proof of irreparable harm and that monetary remedies are not sufficient. But where SmartMetric has never sold products that practice the '464 patent or compete with Defendants' accused systems, claims no market share, and has never offered evidence of irreparable injury, it cannot carry its burden, and its request for injunctive relief must be denied as a matter of law.

Absent entitlement to relief, there is no basis on which SmartMetric's claim can proceed to trial. Accordingly, the Court should enter final judgment dismissing the complaint.

II. STATEMENT OF FACTS

A. SmartMetric and Its Business.

SmartMetric is a publicly-traded company that purports to be a “development stage company engaged in the technology industry.” Declaration of Joseph Melnik (“Melnik Decl.”) ¶¶ 7, 9, Ex. 1 (Hendrick Tr.) at 76:16-77:4, 78:1-9; Ex. 3 (6/30/12 SmartMetric 10-K) at 4. SmartMetric claims to own the '464 patent, titled “System for Automatic Connection to a Network,” which generally discloses a way for users to access the Internet from any computer using their own Internet Service Provider (“ISP”). ECF No. 1 at Ex. 1. While SmartMetric describes its “main product” as a “fingerprint sensor activated card” for “portable biometric identification,” known as a Medical KeyRing,¹ and claims to have developed additional products in the form of “[s]mart cards that are activated by fingerprints,”² Melnik Decl. ¶¶ 7, 9, Ex. 1 (Hendrick Tr.) at 59:20-60:1, 91:13-17, 98:6-12, 100:11-101:1, 105:22-106:18; Ex. 3 (6/30/12 SmartMetric 10-K) at 4, SmartMetric has never sold any products, has never had any revenues, and concedes that it has no market share. Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 87:15-16, 125:2-15, 128:3-20, 193:2-20.

On August 29, 2011, SmartMetric filed suit against MasterCard and Visa alleging infringement of the '464 patent by virtue of their sale, offer for sale, and use of “contact and contact/contactless credit card systems” in “this judicial district and elsewhere in the United States.” ECF No. 1 ¶¶ 1, 12. This is the second of two cases filed against MasterCard and Visa claiming infringement of the '464 patent. *See SmartMetric, Inc. v. MasterCard Int’l Inc. et al.*, Case No. 10-cv-1864 (filed Mar. 15, 2010). Whereas SmartMetric in this case accuses the use of Defendants’ contact chip cards to access a “network,” the earlier case focused on Defendants’

¹ SmartMetric further alleges that its Medical KeyRing product embodies the claims of the '464 patent. Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 106:19-107:5.

² *But see* Melnik Decl. ¶ 12, Ex. 6 (SmartMetric’s Resp. to Visa’s 1st Rogs.) at 14-15 (in response to request to “[i]dentify all Patented SmartMetric Products,” stating that “there are no such products”).

1 contactless chip cards. That case resulted in a stipulated judgment of non-
2 infringement, which was affirmed by the Federal Circuit. *See SmartMetric Inc. v.*
3 *American Express Co.*, 476 F. App'x 742 (Fed. Cir. Apr. 11, 2012).

4 **B. History of Discovery Regarding Damages and Injunctive Relief.**

5 The Court's October 2, 2012 Order Modifying Scheduling Order set March
6 15, 2013 as the "cut-off" for all discovery. ECF No. 64. That deadline was
7 extended to March 29, 2013 by the Court's February 21, 2013 Order Granting in
8 Part and Denying in Part Plaintiff's *Ex Parte* Application to Continue Scheduling
9 Order. ECF No. 87. Although Defendants served SmartMetric with numerous
10 Requests for Production during the discovery period, including requests seeking
11 documents relating to SmartMetric's claim for damages and injunctive relief,
12 SmartMetric never produced any documents in response to these requests. *See*
13 Melnik Decl. ¶ 11, Ex. 5 (Visa's 1st Set of RFPs) at 13-14 (seeking "[a]ll
14 documents concerning any damages SmartMetric alleges it sustained due to the
15 alleged patent infringement by Visa," as well as all documents "concerning an
16 established royalty," licenses for the '464 patent, and revenues and costs associated
17 with SmartMetric products alleged to practice the '464 patent), 18 (seeking "[a]ll
18 documents relating to SmartMetric's claims for injunctive relief"); Declaration of
19 Gary A. Clark ("Clark Decl.") ¶¶ 4-7, Ex. A (SmartMetric's Response to
20 MasterCard's 1st Set of RFPs) at 19-22, 24-26 & 30-31. On two separate
21 occasions, SmartMetric's counsel confirmed in writing that SmartMetric had no
22 documents to produce. Melnik Decl. ¶¶ 13-14, Ex. 7 (1/21/13 Ltr. from P. Bright to
23 G. Clark); Ex. 8 (2/13/13 E-Mail from P. Bright to G. Clark and J. Melnik).

24 SmartMetric also failed to make any meaningful written disclosure of its
25 claim for damages and injunctive relief before discovery closed. In response to its
26 obligation to disclose "a computation of each category of damages claimed"
27 pursuant to Rule 26(a)(1)(A)(iii) of the Federal Rules of Civil Procedure,
28 SmartMetric stated: "No damages computation has yet been made. SM needs

1 discovery on sales, etc. from Defendants to determine damages.” Melnik Decl. ¶
2 10, Ex. 4 (SmartMetric’s Initial Disclosures) at 5. SmartMetric never updated its
3 disclosures. Melnik Decl. ¶ 1. Similarly, in response to an interrogatory seeking
4 “the complete factual and legal basis for any and all damages that You seek from
5 Visa in this action,” SmartMetric disclosed only that “SM awaits discovery
6 responses from VISA to determine its damages.” Melnik Decl. ¶ 12, Ex. 6 (Smart-
7 Metric’s Resp. to Visa’s 1st Rogs) at 15-16; *see also* Clark Decl. ¶ 11, Ex. B
8 (SmartMetric’s Resp. to MasterCard’s 1st Rogs) at 14-15. And in responding to an
9 interrogatory seeking “the complete factual and legal basis supporting your request
10 for injunctive relief,” SmartMetric stated that “SM has suffered, and continues to
11 suffer, irreparable harm by VISA’s ongoing infringement of the ’464 patent.”
12 Melnik Decl. ¶ 12, Ex. 6 at 16; *see also* Clark Decl. Ex. B at 15. SmartMetric never
13 updated its responses before discovery closed. Melnik Decl. ¶ 2; Clark Decl. ¶ 11.

14 The Court’s October 2, 2012 Scheduling Order also set a December 31, 2012
15 deadline for initial expert disclosures. ECF No. 64. Thus, on December 31, Smart-
16 Metric was required to serve expert disclosures on the issues on which it bears the
17 burden of proof at trial, including damages. SmartMetric did not serve an expert
18 report on damages (or on any other topic) at that time. Melnik Decl. ¶ 5.

19 On February 19, 2013, after initial and rebuttal expert deadlines had passed
20 and less than a month before discovery was set to close (ECF No. 64), SmartMetric
21 filed an *ex parte* application to modify the October 2, 2012 Scheduling Order,
22 asking the Court to extend the discovery cut-off and to reset the expert disclosure
23 deadlines to allow it “to prepare/serve expert reports.” ECF No. 84 at 1, 3. Two
24 days later, the Court issued an order that extended the discovery cut-off to March
25 29, 2013 but denied “all other extensions requested” ECF No. 87 (“All dates
26 except the discovery cut-off date shall remain as set forth in the Court’s Order
27 Modifying Scheduling Order filed October 2, 2012”).

28 Despite the Court’s express denial of SmartMetric’s request to reset expert

1 disclosure deadlines, at her March 14, 2013 deposition, Hendrick—testifying in her
2 individual capacity and as SmartMetric’s corporate representative—purported to
3 provide her opinions as to the damages to which SmartMetric is entitled by virtue
4 of Defendants’ alleged infringement of the ‘464 patent. *See* Melnik Decl. ¶ 7, Ex. 1
5 (Hendrick Tr.) at 212:5-244:13. Hendrick conceded that she had performed this
6 analysis “within the last six months” and that it was not based on any documents
7 produced by Defendants. *Id.* at 226:18-227:6, 230:5-8.

8 On March 18, 2013, SmartMetric filed an *ex parte* application with the
9 Magistrate Judge seeking to re-designate several of Visa’s and MasterCard’s highly
10 confidential documents to “confidential” to allow Hendrick, to “read and take them
11 into account in testifying as Plaintiff’s principal witness at trial on the damages
12 issue in this case.” ECF No. 94 at 1. At that time, SmartMetric still had not dis-
13 closed Hendrick—or any other witness—as its damages expert under either Rule
14 26(a)(2)(B) or 26(a)(2)(C) of the Federal Rules of Civil Procedure or made any of
15 the required written disclosures for such experts. Melnik Decl. ¶ 6. Defendants
16 opposed the application, arguing, *inter alia*, that re-designation of their documents
17 for this purpose would be improper, as Hendrick may not offer opinion testimony
18 on damages. ECF No. 97 at 1-2, 4-6. On March 20, 2013, the Magistrate denied
19 SmartMetric’s *ex parte* application. ECF No. 98.

20 Undeterred, on March 24, 2013, SmartMetric served a 4-page, 8-paragraph
21 document titled “Damages Report from Chaya Hendrick on Behalf of Plaintiff/
22 Counter-Defendant SmartMetric Inc.,” purporting to contain Hendrick’s opinions as
23 to SmartMetric’s alleged damages. Melnik Decl. ¶ 8, Ex. 2 (Hendrick Report).

24 **C. SmartMetric’s Damages Claim.**

25 SmartMetric’s damages claim is predicated solely on the untimely-disclosed
26 testimony and report of its CEO, Hendrick. Hendrick has never before served as a
27 damages expert in litigation, been qualified as a damages expert, or testified about
28 damages in litigation. Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 217:12-20. She

1 also has never before testified about a hypothetical negotiation of a patent license,
2 has never heard of a *Georgia-Pacific* analysis, and is not aware of any of the factors
3 typically considered “for determining a reasonable royalty in a patent infringement
4 litigation.” *Id.* at 218:2-16. She did not attend college and does not have a degree
5 in finance, business, or economics. *Id.* at 20:18-19, 217:21-218:1.

6 At her deposition, Hendrick testified that SmartMetric’s “total claim” for
7 damages “amounts to \$11 billion,” purportedly representing the amount that
8 MasterCard and Visa would be willing to pay to use the patented technology
9 (which allegedly covers payment systems using contact chip payment cards) to
10 mitigate credit/debit card fraud in the United States.³ Melnik Decl. ¶ 7, Ex. 1
11 (Hendrick Tr.) at 213:17-215:18. Hendrick also testified that she arrived at this
12 figure by (a) considering the “\$3.56 billion” of credit and debit card fraud that
13 allegedly occurs each year in the United States—which Hendrick suggested
14 represents the cost savings to Visa and MasterCard that would result from using the
15 patented technology to reduce fraud—and (b) applying a 25% royalty rate to those
16 purported cost savings.⁴ *Id.* Hendrick did not explain how applying a 25% rate to
17 \$3.56 billion in alleged annual fraud costs incurred by the country as a whole led
18 her to calculate an \$11 billion royalty based on purported fraud savings to
19 Defendants. *See id.* at 230:9-231:3 (confirming that \$3.56 billion per year
20 represents annual fraud costs, not savings). She further testified that her decision to
21 apply a 25% royalty rate was a “subjective assessment that that [rate] was fair and
22 reasonable,” based solely on her own “subjective assessment” and discussions with
23 SmartMetric’s counsel. *Id.* at 218:17-219:15, 221:2-25 (testifying that rationale for
24 applying 25% rate was “[a] sense of fairness and reasonableness”).

25 ³ According to Hendrick, use of the accused contact-based payment card
26 systems would reduce the amount of fraud that occurs in connection with traditional
27 magnetic-stripe card systems currently in use in the United States. Melnik Decl. ¶¶
28 7-8, Ex. 1 (Hendrick Tr.) at 212:17-215:18; Ex. 2 (Hendrick Report) ¶ 6.

⁴ Hendrick testified that the \$3.56 billion figure derives from a study by the
Federal Reserve of Boston in 2010, but SmartMetric has never produced this study.
Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 214:2-8, 229:20-230:4.

1 In arriving at a 25% rate, Hendrick did not review any patent licenses, rates
2 “paid by other licensees on any type of technology,” any of SmartMetric’s comm-
3 ercial relationships, the value of the patent (in general or as a generator of revenue
4 for SmartMetric), or the profitability of SmartMetric’s patented products. *Id.* at
5 219:16-22, 222:18-223:1, 223:20-8, 236:2-19. She also did not consider any
6 documents produced by Defendants in the litigation, costs to Defendants to adopt
7 the patented technology, or whether they could design around any of the allegedly
8 infringing features. *Id.* at 230:5-8, 236:20-23, 239:19-23. Although Hendrick
9 opined that contactless payment card systems could not qualify as a viable non-
10 infringing alternative to the accused contact payment card systems for purposes of a
11 damages analysis, she could not identify any sources on which she relied for that
12 conclusion. *Id.* at 239:24-243:22. She further did not consider “the portion of
13 profit that should be credited to the invention in a commercial embodiment versus
14 non-patented elements of any product” and did not recall taking into account the
15 value of any non-patented elements of Defendants’ systems in deciding to apply a
16 25% royalty rate. *Id.* at 225:18-20, 226:10-17. While Hendrick claimed to have
17 considered alleged advantages of the ‘464 patent over previous technology, she
18 considered this only “[i]n a general way . . . [n]ot specifically.” *Id.* at 224:9-225:6.

19 In her subsequent report, Hendrick modified the damages calculation she
20 provided at deposition. The report claimed that SmartMetric is entitled to recover
21 at least \$13,237,550,000 “plus 0.25% of the increased card users’ spending arising
22 from targeted advertising, based on tracking users’ expenditures with these cards”
23 from Visa and MasterCard in the form of a “reasonably-priced, paid-up license . . .
24 for the remaining term of the ‘464 patent.” Melnik Decl. ¶ 8, Ex. 2 (Hendrick
25 Report) ¶ 2. The Hendrick Report did not explain why Hendrick’s damages
26 calculation had increased by \$2 billion. Instead, the report simply states that the
27 \$13.24 billion amount is based on applying a 25% rate to \$52,950,200,000, a figure
28 that purportedly represents “total US savings . . . in credit/debit card fraud losses

1 expected” between the end of 2014 and the expiration of the '464 patent 5.1 years
2 later. *Id.* Hendrick further opines that “five elevenths of these damages be paid by
3 MasterCard, and six elevenths by VISA, as their revenues annually are \$5 billion
4 and \$6 billion, respectively.” *Id.* As in her deposition, Hendrick implies that
5 \$13.24 billion represents the value of the '464 patent to Defendants in the form of
6 cost savings from using the accused technology to reduce fraud. *Id.*

7 Hendrick does not explain the source of the \$52.95 billion royalty-base figure
8 or provide any further rationale for her use of a 25% royalty rate. Nor does she cite
9 any source for the formula she applied to divide responsibility for paying the \$13
10 billion royalty figure between MasterCard and Visa. Although Hendrick reiterates
11 her opinion that Defendants do not have, and have not considered, any non-
12 infringing alternatives to the patented technology and cannot “readily abandon”
13 their alleged plans to use the technology in the United States, she cites no reference
14 or source for this determination. *Id.* ¶ 6. Hendrick also offers no factual basis for
15 her opinions that the accused “EMV cards [will] be widely in use in the US by the
16 end of 2014,” that “[t]hese cards will replace, and all but eliminate, the yearly
17 fraudulent transactions in the US with magnetic-stripe-bearing only credit and debit
18 cards,” and that there are “no comparable patent or patent license(s)” to serve as a
19 basis for the reasonable royalty SmartMetric seeks. *Id.* ¶¶ 3-4. Instead, in her
20 report, Hendrick identifies only two publicly available documents that relate
21 generally to the credit card industry as the basis for her opinions. *Id.* ¶ 8.

22 **III. LEGAL STANDARD FOR SUMMARY JUDGMENT**

23 Summary judgment is proper when the pleadings, discovery, and affidavits
24 show “there is no genuine dispute as to any material fact and the movant is entitled
25 to judgment as a matter of law.” Fed. R. Civ. P. 56(a). Material facts are those that
26 may affect the outcome of the case. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242,
27 248 (1986). An issue of fact is genuine only if there is sufficient evidence for a
28 reasonable jury to find for the nonmoving party.

1 The moving party bears the initial burden of identifying those portions of the
2 pleadings, discovery, and affidavits that demonstrate the absence of a genuine issue
3 of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986); *Nissan Fire &*
4 *Marine Ins. Co. v. Fritz Cos.*, 210 F.3d 1099, 1102 (9th Cir. 2000). On an issue for
5 which the non-moving party has the burden of proof at trial, the moving party may
6 “either produce evidence negating an essential element of the nonmoving party’s
7 claim or defense or show that the nonmoving party does not have enough evidence
8 of an essential element to carry its ultimate burden of persuasion at trial.” *Id.* Once
9 the moving party meets its burden, the non-moving party must set out specific facts
10 showing there is a genuine issue for trial by “citing to particular parts of materials
11 in the record, including depositions, documents, electronically stored information,
12 affidavits or declarations, [and/or] stipulations.” Fed. R. Civ. P. 56(c)(1)(A). Mere
13 allegations or denials do not defeat a moving party’s allegations. *Gasaway v. Nw.*
14 *Mut. Life Ins. Co.*, 26 F.3d 957, 959-60 (9th Cir. 1994). If the non-movant fails to
15 produce enough evidence to show a genuine issue of material fact, “the moving
16 party is entitled to a judgment as a matter of law.” *Celotex*, 477 U.S. at 322-23.

17 **A. Defendants Are Entitled to Summary Judgment Dismissing**
18 **SmartMetric’s Claim for Damages.**

19 Defendants are entitled to summary judgment that SmartMetric may not
20 recover damages. Although SmartMetric has the burden to prove its damages
21 claim, it produced no evidence in fact discovery to substantiate that claim and may
22 not offer such evidence now or at trial. Moreover, the late disclosure of Hendrick’s
23 damages opinions cannot preclude summary judgment. Not only are Hendrick’s
24 opinions barred as untimely disclosed, but also they are inadmissible as unqualified
25 and unreliable under Rule 702 of the Federal Rules of Evidence and federal law
26 governing the proper calculation of patent damages. Because SmartMetric will be
27 unable to produce at trial any evidence to support its damages claim, this Court can
28 and should grant summary judgment of no damages.

1 **1. Summary Judgment of No Damages Is Proper Where There**
2 **Is No Evidence to Support a Damages Award.**

3 Upon proof of infringement, the Patent Act permits an award of “damages
4 adequate to compensate for the infringement, but in no event less than a reasonable
5 royalty for the use made of the invention by the infringer.” 35 U.S.C. § 284. Patent
6 damages may take the form of either a patentee’s lost profits or a reasonable royalty
7 resulting from “arms-length bargaining.” *Lucent Techs., Inc. v. Gateway, Inc.*, 580
8 F.3d 1301, 1324 (Fed Cir. 2009). Under either measure, “[t]he patentee bears the
9 burden of proving damages.” *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292,
10 1315 (Fed. Cir. 2011); *see also Devex Corp. v. Gen. Motors Corp.*, 667 F.2d 347,
11 361 (3d Cir. 1981) (requiring patentee to adduce sufficient evidence to support lost
12 profits or reasonable royalty damages claim).

13 Although the patent statute has been interpreted as creating a presumption of
14 reasonable royalty damages when infringement is proven, the patentee still “must
15 put on evidence supporting its assertion of a reasonable royalty rate.” *Boston Sci.*
16 *Corp. v. Johnson & Johnson*, 550 F. Supp. 2d 1102, 1120 (N.D. Cal. 2008) (citing
17 *Dow Chemical Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381 (Fed. Cir. 2003);
18 *Lindemann Maschinenfabrik GmbH v. Am. Hoist & Derrick Co.*, 895 F.2d 1403,
19 1406 (Fed. Cir. 1990)). Specifically, proving a reasonable royalty, which “involves
20 some approximation of the market as it would have hypothetically developed absent
21 infringement . . . requires sound economic and factual predicates.” *Riles v. Shell*
22 *Exploration and Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002). In the absence
23 of evidence as to what would constitute a reasonable royalty in a given case, a court
24 may award a patentee no damages. *See Lindemann*, 895 F.2d at 1407 (“The statute
25 [35 U.S.C. § 284] . . . requires the award of a reasonable royalty, but to argue that
26 this requirement exists even in the absence of any evidence from which a court may
27 derive a reasonable royalty goes beyond the possible meaning of the statute.”)
28 (citing *Devex*, 667 F.2d at 363 (affirming award of no damages given absence of

evidence to support royalty calculation)); *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012) (holding that neither party could recover damages for patent infringement based on failure to offer competent proof); *Boston Sci.*, 550 F. Supp. 2d at 1120 (awarding no damages where patentee failed to present evidence to calculate non-speculative reasonable royalty award); *Monolithic Power Sys., Inc. v. O2 Micro Int'l, Ltd.*, 476 F. Supp. 2d 1143, 1155-56 (N.D. Cal. 2007) (granting summary judgment of no damages where only unreliable and inadmissible expert opinion offered to prove damages); *LG Elecs., Inc. v. Advance Creative Computer Corp.*, 212 F. Supp. 2d 1171, 1173 (N.D. Cal. 2002) (awarding no damages following default judgment, given failure to offer sufficient evidence to support claim); *KEG Techs., Inc. v. Laimer*, 436 F. Supp. 2d 1364, 1370 (N.D. Ga. 2006) (denying patent damages where patentee failed to offer evidence to support award of lost profits or reasonable royalty); *Ovadia Corp. v. Omeroglu Decoration, Ltd.*, No. 04 Civ. 8064(DLC), 2006 WL 3827557, at *1 (S.D.N.Y. Dec. 28, 2006) (awarding no damages where plaintiff failed to satisfy burden as to lost profits and “has ... not provided any reliable basis for an award of reasonable royalties”); *Nat'l Presto Indus., Inc. v. Black & Decker, Inc.*, 760 F. Supp. 699, 701 (N.D. Ill. 1991) (“The patent statute provides for damages ‘in no event less than a reasonable royalty.’ . . . But that’s assuming that damages have been proved up. Neither the patent statute nor the rules of evidence contemplate judgments or jury verdicts based on conjecture, and we will not permit that in this case.”) (citations omitted).

2. No Evidence Exists to Support a Damages Award.

Summary judgment that SmartMetric is not entitled to recover damages is proper because SmartMetric can point to no evidence to support a damages award. SmartMetric has not produced any documents to support its claim, meaningfully responded to discovery requests seeking the basis for its claim, or complied with its Rule 26 obligation to disclose its damages computation. Further, SmartMetric did not identify any witnesses in its initial disclosures as having knowledge of its

1 damages claim. Melnik Decl. ¶ 10, Ex. 4 (SmartMetric's Initial Disclosures) at 2-4.

2 Timely disclosure and supplementation of SmartMetric's damages claim was
3 necessary to facilitate potential settlement discussions, prepare for trial, and focus
4 and prioritize the parties' organization of discovery. *City & Cnty. of San Francisco*
5 *v. Tutor-Saliba Corp.*, 218 F.R.D. 219, 220-21 (N.D. Cal. 2003). Even had its
6 analysis been ongoing, SmartMetric was not excused from its disclosure
7 obligations. Fed. R. Civ. P. 26(e)(1); *Moore's Federal Practice* § 26.22[4][c]
8 (plaintiff required to disclose best information available to it, however limited and
9 potentially changing it may be). Having failed to produce evidence in discovery to
10 support its damages claim, SmartMetric is precluded from offering such evidence
11 "on a motion, at a hearing, or at a trial," absent proof that its failure to timely
12 disclose or supplement was substantially justified or harmless. Fed. R. Civ. P.
13 37(c)(1); *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1106-07
14 (9th Cir. 2001). Such proof is lacking. SmartMetric's deliberate indifference to its
15 discovery obligations does not justify—let alone substantially justify—its failure to
16 produce evidence of its damages claim. And with discovery closed and less than
17 five months until trial, SmartMetric's discovery failures have significantly impeded
18 Defendants' trial preparation. *See Payne v. Exxon Corp.*, 121 F.3d 503, 508 (9th
19 Cir. 1997) ("The issue is not whether [parties] eventually obtained the information
20 they needed, or whether plaintiffs are now willing to provide it, but whether
21 plaintiffs' repeated failure to provide documents and information in a timely
22 fashion prejudiced the ability of [defendants] to prepare their case for trial.").

23 Absent evidence to support a damages claim, SmartMetric cannot carry its
24 burden to prove entitlement to damages, and summary judgment is proper. *Apple*,
25 869 F. Supp. at 913 (granting summary judgment that neither party could recover
26 patent damages); *Monolithic Power*, 476 F. Supp. 2d at 1155-56 (granting summary
27 judgment of no damages where plaintiff failed to carry burden of proof).

28

1 **3. SmartMetric Cannot Create a Genuine Issue of Material**
2 **Fact Regarding Damages by Relying on the Untimely,**
3 **Unqualified, and Unreliable Opinion of Its CEO.**

4 SmartMetric's entire damages claim turns on the "expert" opinion of its
5 CEO, Hendrick. But Hendrick's opinions cannot create a genuine issue for trial as
6 to SmartMetric's damages. Her proposed testimony on damages is barred as a
7 matter of procedure, in light of its untimely disclosure, and for its failure to comply
8 with Rule 702's requirements that expert opinion be both qualified and reliable.

9 **(a) SmartMetric is barred from offering the untimely-**
10 **disclosed Hendrick damages opinions.**

11 Having failed to timely disclose any expert opinion on damages as required
12 by this Court's October 2, 2012 Scheduling Order and Rule 26, SmartMetric is now
13 barred from offering such opinion(s)—through Hendrick or any other witness—in
14 any future proceeding. Thus, such opinions cannot preclude summary judgment,

15 Although the Court set a deadline of December 31, 2012 for initial expert
16 disclosures, SmartMetric did not disclose its theory of damages until Hendrick's
17 March 14, 2013 deposition and did not provide a written disclosure of Hendrick's
18 alleged "expert" opinions until March 24, 2013. SmartMetric's late disclosure of
19 Hendrick's damages opinions not only ran contrary to the Court's earlier scheduling
20 order and expert disclosure requirements of Rule 26(a)(2), but also openly violated
21 this Court's February 21, 2013 Order, which denied SmartMetric's express request
22 to reset the deadlines for expert disclosure. ECF No. 64; ECF No. 87; Fed. R. Civ.
23 P. 26(a)(2)(A)-(C). To the extent Hendrick's opinions are even admissible—and
24 they are not—there is no justification for SmartMetric's late disclosure of the
25 opinions. Indeed, at deposition, Hendrick admitted she had performed her damages
26 analysis "[w]ithin the last six months" and that it did not depend on Defendants'
27 documents; as a result, SmartMetric could and should have disclosed Hendrick's
28 opinions by the Court's expert disclosure deadline. Melnik Decl. ¶ 7, Ex. 1
 (Hendrick Tr.) at 226:18-227:6, 230:5-8. SmartMetric's unexcused failure to

1 comply with its expert discovery obligations has severely prejudiced Defendants’
2 discovery efforts and trial preparation, and thus bars SmartMetric from relying on
3 Hendrick’s proposed testimony at trial or to resist summary judgment. Fed. R. Civ.
4 P. 37(c)(1); *Yeti by Molly*, 259 F.3d at 1106-07; *Pineda v. City & Cnty. of San*
5 *Francisco*, 280 F.R.D. 517, 523 (N.D. Cal. 2012) (excluding untimely-disclosed
6 expert testimony); *Veritas Operating Corp. v. Microsoft Corp.*, No. 2:06-cv-00703-
7 JCC, 2008 U.S. Dist. LEXIS 35627, at *93-94 (W.D. Wash. Jan. 17, 2008) (barring
8 employee from offering untimely-disclosed expert testimony regarding damages);
9 *Benedict v. Zimmer, Inc.*, 232 F.R.D. 305, 317 (N.D. Iowa 2005) (barring late-
10 disclosed expert report, explaining, “if the Benedicts had a legitimate need to
11 extend the deadline for submitting their expert report, they should have filed a
12 motion and sought an extension of the deadline”).

13 (b) **Hendrick’s opinions are inadmissible for failure to**
14 **comply with Rule 702.**

15 (i) **Expert testimony must be qualified and reliable.**

16 Rule 702 “permits experts qualified by ‘knowledge, experience, skill,
17 expertise, training, or education’ to testify ‘in the form of an opinion or otherwise’
18 based on ‘scientific, technical, or other specialized knowledge’ if that knowledge
19 will ‘assist the trier of fact to understand the evidence or to determine a fact in
20 issue.’” *Salinas v. Amtek of Ky., Inc.*, 682 F. Supp. 2d 1022, 1029 (N.D. Cal. 2010)
21 (quoting Fed. R. Evid. 702). The expert’s testimony must be based on “sufficient
22 facts or data,” it must be “the product of reliable principles and methods,” and the
23 expert must have “applied the principles and methods reliably to the facts of the
24 case.” Fed. R. Evid. 702. The proponent of expert testimony bears the burden to
25 establish “by a preponderance of the evidence that the admissibility requirements
26 are met.” *Salinas*, 682 F. Supp. 2d at 1029.

27 The trial court is obliged to act as a “gatekeeper” to ensure that proffered
28 expert testimony is both reliable and relevant to the issues being tried. *Id.* at 1029-

30 (quoting *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 597 (1993)); *see also Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147 (1999). “[N]othing in either *Daubert* or the Federal Rules of Evidence requires a district court to admit opinion evidence that is connected to the existing data only by the *ipse dixit* of the expert.” *Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997)). Likewise, subjective or speculative expert testimony is not admissible. *See, e.g., Power Integrations, Inc. v. Fairchild Semiconductor Int’l, Inc.*, Nos. 2011-1218, 2012-1238, 2013 WL 1200270, at *20-21 (Fed. Cir. Mar. 26, 2013) (finding that court abused discretion in admitting damages expert’s testimony that rested on speculation); *Diviero v. Uniroyal Goodrich Tire Co.*, 114 F.3d 851, 853 (9th Cir. 1997) (affirming court’s exclusion expert testimony that was “unsubstantiated and subjective, and therefore unreliable and inadmissible”); *Tyger Constr. Co. v. Pensacola Constr. Co.*, 29 F.3d 137, 142 (4th Cir. 1994) (“An expert’s opinion should be excluded when it is based on assumptions which are speculative and are not supported by the record.”); *In re Bausch & Lomb, Inc. Contact Lens Sol’n Prods. Liab. Litig.*, No. 2:06-MN-77777-DCN, 2009 WL 2750462, at *9 (D.S.C. Aug. 26, 2009).

(ii) **Hendrick is not qualified to opine on SmartMetric’s alleged damages.**

Hendrick’s damages opinions—including her calculation of a reasonable royalty and conclusions regarding the availability of non-infringing alternatives—are inadmissible (and thus cannot preclude summary judgment) because Hendrick lacks qualifications to provide such testimony.

First, Hendrick is not qualified to offer opinions regarding the calculation of reasonable royalty damages. Hendrick admits she has no background or experience assessing patent damages and is not familiar with the economic or legal principles governing such analyses. *See* Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 20:18-19, 217:12-218:16. To the extent Hendrick’s analysis turns on her opinion that “there is no comparable patent or patent license,” Hendrick has no expertise in assessing

1 patent licenses. Melnik Decl. ¶ 8, Ex. 2 (Hendrick Report) ¶ 4. Indeed, her only
2 claimed experience with licensing is her alleged negotiation of two licenses in the
3 1980s to publish online dictionaries. Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at
4 24:3-25:5, 26:17-27:20; *see also id.* at 127:11-13 (testifying SmartMetric has not
5 licensed '464 patent), 219:16-22 (testifying she did not review any licenses or rates
6 to form damages opinion). Likewise, to the extent Hendrick's analysis turns on her
7 conclusory statements regarding the payment card industry—including Defendants'
8 respective market shares, projections regarding the future use of "EMV cards," the
9 potential impact of such cards on payment card fraud, and the expectation that
10 Defendants would benefit from fraud reduction—Hendrick professes no experience,
11 background, or expertise in this industry. *See* Melnik Decl. ¶ 8, Ex. 2 (Hendrick
12 Report) ¶¶ 2-3. Courts do not hesitate to preclude lay witnesses like Hendrick from
13 offering unqualified opinions on patent damages. *See, e.g., Veritas*, 2008 U.S. Dist.
14 LEXIS 35627, at *96 (barring testimony where "nothing in [witness'] background
15 of record suggests experience in assessing patent damages, or more particularly in
16 determining a reasonable royalty via licensing negotiations, or even in licensing at
17 all"); *Signature Flight Support Corp. v. Ladow Aviation Ltd. P'ship*, No.
18 1:08cv955(JCC), 2009 U.S. Dist. LEXIS 76043, at *8-12 (E.D. Va. Aug. 25, 2009)
19 (barring damages opinion because COO lacked personal knowledge of information
20 underlying damages calculations); *Lifewise Master Funding v. Telebank*, 374 F.3d
21 917, 929-30 (10th Cir. 2004) (barring CEO from testifying about lost profits based
22 on complex calculation about which CEO did not have personal knowledge).

23 *Second*, Hendrick is not qualified to offer opinions regarding acceptable non-
24 infringing alternatives as part of a reasonable royalty analysis. Although Hendrick
25 opines that no "practical non-infringing alternative[s]" to the accused systems exist,
26 Melnik Decl. ¶ 8, Ex. 2 (Hendrick Report) ¶ 6, nothing in Hendrick's background
27 suggests she is familiar with the types of payment solutions that might constitute
28 non-infringing alternatives to the accused payment system. Indeed, apart from a

1 high school education and self-instruction in computer programming, Hendrick
2 claims no education or training. Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 20:15-
3 23:21. Courts bar witnesses from testifying about non-infringing alternatives where
4 the subject matter falls outside the witness's expertise. *See Apple*, 869 F. Supp. 2d
5 at 905-906 (barring witness's testimony because "[t]here is no suggestion that he is
6 familiar with the range of chips that might constitute feasible and economical
7 substitutes for the '263"); cf. *In re Katz Interactive Call Processing Patent Litig.*,
8 882 F. Supp. 2d 1123, 1147 (C.D. Cal. 2010) (barring executive's testimony
9 regarding non-infringing alternatives where she never explained her qualifications
10 to testify about them); *EZ Dock, Inc. v. Schafer Sys., Inc.*, No. 98-2364 (RHK/AJB),
11 2003 WL 1610781, at *3-6 (D. Minn. Mar. 8, 2003) (barring testimony as to non-
12 infringing alternatives where expert lacked proper factual basis).

13 **(iii) Hendrick's opinions regarding SmartMetric's**
14 **alleged damages are unreliable.**

15 Hendrick's proposed testimony regarding damages also is inadmissible (and
16 thus, cannot provide a basis for avoiding summary judgment) because Hendrick's
17 opinions fail to meet Rule 702's reliability requirements in numerous ways.

18 *First*, Hendrick's opinions as to an appropriate royalty base are not grounded
19 in "sufficient facts or data" or "the product of reliable principles and methods," as
20 Rule 702 requires. Although Hendrick opines that a reasonable royalty in this case
21 should be based on Defendants' alleged cost savings from using the patented tech-
22 nology to reduce payment card fraud, she then uses a royalty base of \$52.95 billion,
23 which purportedly represents total "credit/debit card fraud losses expected" in the
24 United States between 2014 and 2020. Melnik Decl. ¶ 8, Ex. 2 (Hendrick Report)
25 ¶ 2. Hendrick fails to identify the source of this \$52.95 billion figure.⁵ Moreover,

26 ⁵ Hendrick previously testified that the appropriate royalty base in this case
27 was some derivative of an alleged \$3.56 billion in annual credit and debit card fraud
28 in the United States. Melnik ¶ 7, Ex. 1 (Hendrick Tr.) at 213:17-215:18. The fact
that this figure does not bear any clear relation to the \$52.95 billion royalty base
Hendrick uses now confirms the unreliability of Hendrick's approach.

1 she fails to provide any link between alleged fraud-based *losses* incurred in the
2 United States as a whole and any *cost savings* that may accrue to *Defendants* from
3 any fraud reduction resulting from using the accused technology. She also makes
4 no effort to determine Defendants’ actual or likely cost savings from such use.⁶
5 Instead, she concludes only—without citation—that “[w]e expect EMV cards to be
6 widely in use in the US by the end of 2014,” that such use will “all but eliminate[]
7 the yearly fraudulent transactions in the US,” and that the “savings benefits in the
8 US to VISA and MasterCard will continue into the indefinite future.” Melnik Decl.
9 ¶ 8, Ex. 2 (Hendrick Report) ¶¶ 3, 5. These unsubstantiated assumptions cannot
10 turn alleged cost to the consuming public into savings to Defendants, particularly in
11 light of Hendrick’s testimony that costs to consumers from payment card fraud are
12 distinct from any savings to Defendants that could result from fraud reduction.
13 Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 230:9-231:3. Nor are such assumptions
14 proper bases of expert opinion. *Tyger*, 29 F.3d at 142 (“An expert’s opinion
15 should be excluded when it is based on assumptions which are speculative and are
16 not supported by the record.”); *Bausch & Lomb*, 2009 WL 2750462, at *9.
17 Hendrick’s use of a royalty base untethered to the value of the patented technology,
18 and limited to speculative future projections, is unsound and does not support a
19 damages computation. *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed.
20 Cir. 2010) (“[T]he trial court must carefully tie proof of damages to the claimed
21 invention’s footprint in the market place. . . . Any evidence unrelated to the claimed
22 invention does not support compensation for infringement but punishes beyond the
23 reach of the statute.”); *Riles*, 298 F.3d at 1312 (vacating damages award, noting
24 expert’s “model does not associate his proposed royalty with the value of the
25 patented method at all, but with the unrelated cost of the entire Spirit platform,
26 which includes much more than the cost of” not using patented technology).

27 ⁶ Indeed, Hendrick admitted that she had not considered any of Defendants’
28 documents in formulating her opinions. *Id.* at 230:5-8.

1 *Second*, Hendrick’s opinions as to an appropriate royalty rate are similarly
2 unsupported and unreliable. As a threshold matter, Hendrick concedes that her use
3 of a 25% royalty rate was wholly subjective. Melnik Decl. ¶ 7, Ex. 1 (Hendrick
4 Tr.) at 218:17-219:15, 221:2-25. This admission alone warrants excluding her
5 opinion. *Tyger*, 29 F.3d at 142; *Bausch & Lomb*, 2009 WL 2750462, at *9.

6 Moreover, Hendrick admits that in arriving at a 25% royalty rate, she did not
7 consider most of the factors that inform a royalty analysis under *Georgia-Pacific*
8 *Corp. v. U.S. Plywood Corp.*, including the existence of benchmark patent licenses,⁷
9 rates “paid by other licensees on any type of technology,” commercial relationships
10 between SmartMetric and any licensees, the value of the '464 patent in generating
11 SmartMetric revenue, the profitability of any SmartMetric products embodying the
12 patented technology, or Defendants’ costs in adopting the accused technology. 318
13 F. Supp. 1116, 1119-20 (S.D.N.Y. 1970); *see also* Melnik Decl. ¶ 7, Ex. 1
14 (Hendrick Tr.) at 219:16-22, 222:18-223:1, 223:20-24, 230:5-8, 236:2-19, 236:20-
15 23, 239:19-23. Courts routinely exclude expert testimony that fails to reliably
16 apply the *Georgia-Pacific* factors in calculating a reasonable royalty figure. *See*,
17 *e.g.*, *WhitServe, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 31 (Fed. Cir. 2012)
18 (“Expert witnesses should concentrate on fully analyzing the applicable factors, . . .
19 some explanation of both why and generally to what extent the particular factor
20 impacts the royalty calculation is needed.”); *IP Innovation LLC v. Red Hat, Inc.*,
21 705 F. Supp. 2d 687, 689-91 (E.D. Tex. 2010) (Rader, J., sitting by designation)
22 (excluding expert as having used unreliable method where expert failed to account
23 for other comparable licenses as guided by *Georgia-Pacific*); *Minebea Co. v. Papst*,
24 No. 97-0590 (PLF), 2005 WL 1459704, at *3 (D.D.C. Jun. 21, 2005) (excluding
25 expert who failed to explain how *Georgia-Pacific* factors justified royalty rate).
26 While Hendrick claimed at her deposition to have considered one of the *Georgia-*

27 ⁷ With Hendrick having admitted that she did not review any patent licenses,
28 her conclusion that “[t]o my knowledge, there is no comparable patent or patent
license” should be disregarded. Melnik Decl. ¶ 8, Ex. 2 (Hendrick Report) ¶ 4.

1 *Pacific* factors—alleged advantages of the ’464 Patent over previous technology—
2 she conceded that she considered this factor only “[i]n a general way . . . [n]ot
3 specifically.” Melnik ¶ 7, Ex. 1 (Hendrick Tr.) at 224:9-225:6. But Hendrick’s
4 superficial consideration of this factor does not support her otherwise grossly
5 deficient analysis. *See Whitserve*, 694 F.3d at 31 (plaintiff may not rely on
6 *Georgia-Pacific* analysis to support damages where expert merely “recit[ed] each
7 factor and make[s] conclusory remark[s]” that these factors “increase” damages).

8 Although Hendrick claims that her “proposed 25% royalty rate leaves a very
9 conservative 75% to account for the contribution of non-patented elements in the
10 accused systems/methods,” Hendrick conceded she did not actually consider “the
11 portion of profit that should be credited to the invention in a commercial embod-
12 iment versus non-patented elements of any product,” and she did not recall taking
13 into account the value of any non-patented elements of the Defendants’ systems in
14 deciding to apply a 25% rate. Melnik Decl. ¶¶ 7-8, Ex. 2 (Hendrick Report) ¶ 4;
15 Ex. 1 (Hendrick Tr.) at 225:18-20, 226:10-17. Instead, Hendrick appears simply to
16 be relying on the “25 percent rule of thumb.” While this tool was once widely
17 “used to approximate the reasonable royalty rate that the manufacturer of a patented
18 product would be willing to offer to pay to the patentee during a hypothetical
19 negotiation,” the Federal Circuit has expressly rejected it as a “fundamentally
20 flawed tool for determining a baseline royalty rate in a hypothetical negotiation.”
21 *Uniloc*, 632 F.3d at 1315 (holding that “[e]vidence relying on the 25 percent rule of
22 thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence,
23 because it fails to tie a reasonable royalty base to the facts of the case at issue”).

24 *Third*, Hendrick’s opinions as to the existence of acceptable non-infringing
25 alternatives lack any factual basis. Hendrick cites no data to support her conclusion
26 that Defendants neither have nor have considered any non-infringing alternatives to
27 the accused contact chip card payment systems and cannot “readily abandon” their
28 alleged plans to use that technology in the United States. Melnik Decl. ¶ 8, Ex. 2

(Hendrick Report) ¶ 6. Nor was Hendrick able to point to a single source for her opinion that contactless payment card technology does not qualify as a viable non-infringing alternative. Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at 239:24-243:22. Hendrick's opinions are classic expert *ipse dixit* that are inadmissible to support SmartMetric's damages claim. *Gen. Elec.*, 522 U.S. at 146.

Finally, Hendrick's remaining opinions are inadmissible because they fail to comply with Rule 702's reliability requirements. Hendrick's opinions as to various aspects of the payment card industry—including Defendants' market shares, her "expect[ation]" that "EMV cards" will be widely used in the U.S. by the end of 2014, and the role such cards will have on "eliminat[ing]" payment card fraud—are not based on any facts or data, let alone sufficient ones. Melnik Decl. ¶ 8, Ex. 2 (Hendrick Report) ¶¶ 2-3, 5. Indeed, Hendrick cites no sources that substantiate any of these opinions. Similarly, Hendrick's opinion as to how responsibility for the \$13.24 billion royalty amount she computed should be divided between Visa and MasterCard is not based on any reliable methodology.⁸ Hendrick's conclusion that a royalty should be allocated between Defendants based on their comparative annual revenues—rather than an analysis of the value of the patented technology to *each* defendant—finds no support in the law. *See Riles*, 298 F.3d at 1311 ("A 'reasonable royalty' contemplates a hypothetical negotiation between the patentee and the infringer at a time before the infringement began.") (emphasis added).

B. Defendants Are Entitled to Summary Judgment Dismissing SmartMetric's Claim for Injunctive Relief.

Defendants are entitled to summary judgment that SmartMetric is not entitled to injunctive relief in this case. This is because SmartMetric, which does not sell any products that practice the asserted claims of the '464 Patent or compete with

⁸ That Hendrick's damages calculation increased from \$11 billion to \$13.24 billion in the two-week period between her deposition and her report further demonstrates the unreliability of her opinions. *Compare* Melnik Decl. Ex. 1 (Hendrick Tr.) at 213:17-215:18, *with* Melnik Decl. Ex. 2 (Hendrick Report) ¶ 2.

Defendants’ accused products, cannot establish—as required by Supreme Court law—irreparable harm that has resulted or will result from Defendants’ alleged infringement or that legal remedies would inadequately compensate SmartMetric.

1. Injunctive Relief Requires Proof of Irreparable Harm and Inadequacy of Monetary Relief.

Under the Patent Act, a district court “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” 35 U.S.C. § 283. “[A] plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief.” *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). Specifically, a plaintiff must show that: (1) it has suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction. *Id.* Patentees seeking injunctive relief are not entitled to a presumption of irreparable harm merely upon a showing that the asserted patents are valid and have been infringed. *Id.* at 392. Rather, they must offer proof of irreparable injury and inadequacy of legal remedies to obtain an injunction. *Id.* at 391; *see also Flexible Lifeline Sys., Inc. v. Precision Lift, Inc.*, 654 F.3d 989, 995 (9th Cir. 2011) (*eBay* “was very clear that even where infringement had been proven, a plaintiff may not be granted injunctive relief until he satisfies the four-factor test, which includes demonstrating irreparable injury”).

As a general matter, “[c]ourts awarding permanent injunctions typically do so under circumstances where [the] plaintiff practices its invention and is a direct market competitor.” *Telcordia Techs., Inc. v. Cisco Sys., Inc.*, 592 F. Supp. 2d 727, 747 (D. Del. 2009) (quoting *Advanced Cardiovascular Sys. v. Medtronic Vascular, Inc.*, 579 F. Supp. 2d 554, 558 (D. Del. 2008)). Conversely, courts deny injunctive relief to plaintiffs who do not commercialize their inventions and/or do not directly

1 compete with the accused infringer because such plaintiffs cannot prove irreparable
2 harm. *See Amado v. Microsoft Corp.*, No. SA CV 03-242 DOC (ANx), 2007 U.S.
3 Dist. LEXIS 96487, at *34, 38-39 (C.D. Cal. Mar. 13, 2007), *vacated in part on*
4 *other grounds*, 517 F.3d 1353 (Fed. Cir. 2008) (denying injunction where plaintiff
5 was “not in the business of selling any software that practice[d]” asserted patent, “is
6 not a competitor of [defendant], and has never sold a license of his patent or
7 otherwise successfully commercialized it”); *MercExchange, L.L.C. v. eBay, Inc.*,
8 500 F. Supp. 2d 556, 570 (E.D. Va. 2007) (denying injunction where plaintiff did
9 not market or sell products practicing patents and thus “failed to establish that an
10 injunction is necessary to protect its brand name, market share, reputation,
11 goodwill, or future research and development opportunities”); *z4 Techs., Inc. v.*
12 *Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006) (same).

13 Absent proof of irreparable injury and inadequacy of legal remedies, requests
14 for injunctive relief may be dismissed as a matter of law. *Apple*, 869 F. Supp. 2d at
15 915, 922-23 (granting summary judgment dismissing request for injunctive relief
16 where parties failed to prove irreparable harm); *Microsoft Corp. v. Motorola, Inc.*,
17 No. C10-1823JLR, 2012 U.S. Dist. LEXIS 170587, at *26-31 (W.D. Wash. Nov.
18 29, 2012) (granting summary judgment dismissing request for injunctive relief
19 where plaintiff failed to show it suffered irreparable injury or that legal remedies
20 were inadequate to compensate for injury, noting that “the court need not reach the
21 other elements of the standard for permanent injunctive relief”).

22 **2. SmartMetric Can Point to No Evidence of Irreparable Harm**
23 **or Inadequacy of Monetary Relief.**

24 Summary judgment dismissing SmartMetric’s request for injunctive relief is
25 proper because SmartMetric can point to no evidence of—and thus, cannot prove—
26 irreparable harm or inadequacy of legal remedies. Here, it is undisputed that Smart-
27 Metric has never sold any products (including any products that allegedly practice
28 the asserted claims of the '464 patent). Melnik Decl. ¶ 7, Ex. 1 (Hendrick Tr.) at

1 125:2-15, 128:3-20. Although SmartMetric purports to have developed products in
2 the form of “[s]mart cards that are activated by fingerprints,” it does not claim that
3 any of these products compete with Defendants’ accused payment systems, which
4 provide payment processing services over information processing networks to
5 support payment card purchase transactions. *Id.* at 59:20-60:1, 91:13-17, 98:6-12,
6 100:11-101:1, 105:22-106:18. Moreover, Smart-Metric has conceded that, having
7 never sold any products, it has no market share. *Id.* at 193:2-20. And SmartMetric
8 has never identified or produced any evidence tending to show that it has suffered
9 or will suffer irreparable harm—for example, in the form of harm to its brand name,
10 market share, reputation, or goodwill—as a result of Defendants’ alleged
11 infringement.⁹ Thus, SmartMetric cannot demonstrate irreparable harm that would
12 warrant injunctive relief, or that monetary relief—such as license fees—would be
13 inadequate.¹⁰ *Amado*, 2007 U.S. Dist. LEXIS 96487, at *38-39; *MercExchange*,
14 500 F. Supp. 2d at 570; *z4 Techs.*, 434 F. Supp. 2d at 440; *Unicom Monitoring*,
15 *LLC v. Cencom, Inc.*, No. 06-1166 (MLC), 2013 WL 1704300, at *8-10 (D.N.J.
16 Apr. 19, 2013). And SmartMetric cannot resist summary judgment based solely on
17 its conclusory allegation that it “has suffered, and continues to suffer, irreparable
18 harm by [defendants’] ongoing infringement of the ’464 patent.” Melnik Decl. Ex.
19 6 (SmartMetric’s Resp. to Visa’s 1st Rogs) at 16; Clark Decl. Ex. B (SmartMetric’s
20 Resp. to MasterCard’s 1st Rogs) at 15; *Gasaway*, 26 F.3d at 960 (holding “mere
21 allegations or denials” cannot defeat summary judgment). That is particularly true
22 where Hendrick’s damages analysis is based solely on speculation of future harm.

23 **C. Defendants Are Entitled to Entry of Final Judgment.**

24 Where “a plaintiff fails to establish any basis for an award of relief, the

25 ⁹ For the reasons noted above, SmartMetric would be unable to rely on any
26 new, heretofore undisclosed evidence of alleged irreparable harm. *Supra* at 11-12.

27 ¹⁰ Although, as explained above, SmartMetric may not recover monetary
28 relief in light of its inability to prove damages, “[a] patentee cannot base a claim to
an injunction on a self-inflicted wound, such as sponsoring a damages expert who
prepares a demonstrably inadequate point.” *Apple*, 869 F. Supp. 2d at 919.

1 defendant is entitled to a judgment dismissing the case with prejudice” *Apple*,
2 869 F. Supp. 2d at 923. This is because, absent entitlement to legal or injunctive
3 relief, a plaintiff has not suffered a redressable injury and, thus, no subject matter
4 jurisdiction exists over the plaintiff’s claims. *Id.* at 903, 923-924 (“[W]hen the
5 court has determined that neither party could obtain monetary or injunctive relief
6 against the other . . . there would be no federal subject-matter jurisdiction”); *WiAV*
7 *Solutions LLC v. Motorola, Inc.*, 631 F.3d 1257, 1263-64 (Fed. Cir. 2011) (Article
8 III requires that federal courts hear only “cases” or “controversies,” which exist
9 only when plaintiff has standing); *Biotechnology Indus. Org. v. Dist. of Columbia*,
10 496 F.3d 1362, 1369-70 (Fed. Cir. 2007) (standing requires, at minimum, suffering
11 “an injury in fact”); *Prasco, LLC v. Medicis Pharm. Corp.*, 537 F.3d 1329, 1338
12 (Fed. Cir. 2008) (injury in fact must be “concrete and actual” and “redressable by a
13 favorable decision”). Accordingly, courts have granted final judgment where a
14 plaintiff has failed to prove entitlement to relief. *See Apple*, 869 F. Supp. 2d at 923
15 (entering final judgment dismissing patent infringement suits with prejudice after
16 granting summary judgment that parties were not entitled to recover damages or
17 obtain injunctive relief); *AVM Techs., LLC v. Intel Corp.*, Civil Action No. 10-610-
18 RGA, ECF No. 294 (Order) at 3-4 (D. Del. Mar. 29, 2013) (entering final judgment
19 dismissing patent infringement suit after granting summary judgment that plaintiff
20 was not entitled to damages based on lack of proof and had not sought other relief).

21 Because SmartMetric is not entitled to either damages or an injunction in this
22 case, the Court can and should enter final judgment in Defendants’ favor dismissing
23 SmartMetric’s claims.

24 **IV. CONCLUSION**

25 For the reasons stated above, the Court should grant summary judgment that
26 SmartMetric is not entitled either to recover damages or to obtain injunctive relief
27 and should enter final judgment in Defendants’ favor dismissing with prejudice all
28 of SmartMetric’s claims.

1 Dated: May 6, 2013

2 Respectfully submitted,

3 JONES DAY

4
5 By /s/ Joseph Melnik
6 JOSEPH MELNIK

7 Attorneys for Defendant and Counterclaimant
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9 Dated: May 6, 2013

10 Respectfully submitted,

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13
14 By /s/ Gary A. Clark
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16 Attorneys for Defendant and Counterclaimant
17 MASTERCARD INTERNATIONAL
18 INCORPORATED
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ATTESTATION

I, Joseph Melnik, a CM/ECF User whose ID and password are being used to file the foregoing **DEFENDANTS AND COUNTERCLAIM-PLAINTIFFS MASTERCARD INTERNATIONAL INC. AND VISA INC.'S NOTICE OF MOTION AND MOTION FOR SUMMARY JUDGMENT REGARDING PLAINTIFF AND COUNTERCLAIM-DEFENDANT SMARTMETRIC INC.'S CLAIM FOR DAMAGES AND INJUNCTIVE RELIEF AND MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF**, in compliance with L.R. 5-4.3.4(a)(2)(i), attest that Gary A. Clark of Sheppard Mullin Richter & Hampton LLP, attorneys for Defendant and Counterclaim-Plaintiff MasterCard International Inc., has concurred with this filing's content and has authorized this filing.

Dated: May 6, 2013

Respectfully submitted,

JONES DAY

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